ECONOMIC SCIENCES

COMPARATİVE ANALYSİS OF WAGE INCOME TAXATİON İN TÜRKİYE AND AZERBAİJAN

Jafarova R.
https://orcid.org/0009-0008-3233-1222
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Abstract

This article provides a comprehensive comparative analysis of wage income taxation in the Republic of Azerbaijan and the Republic of Türkiye, focusing on the application of personal income tax. The objective of this study is to analyze the various characteristics and mechanisms involved in the taxation of wage income, with a particular emphasis on the methods used to calculate and apply tax rates in both countries. By comparing the tax systems in Azerbaijan and Türkiye, the article highlights the structural similarities and differences in wage tax frameworks, examining how these systems affect both individuals and the state. Additionally, the study explores the positive and negative aspects of the wage tax rates, considering their impact on social equity and economic efficiency. The research concludes with recommendations aimed at optimizing the existing tax structures, enhancing fairness, and reducing the tax burden for low and middle-income earners. The comparative methodology employed enables a deeper understanding of how tax policies can shape wage distribution, public finance, and overall economic sustainability in both countries.

Keywords: wage, Azerbaijan, Türkiye, income tax, tax rates, social equity, fiscal policy

Introduction

Tax is a compulsory and non-reciprocal monetary payment collected by the state or municipalities from taxpayers under legal coercion in order to finance public expenditures. Every individual inevitably encounters both indirect and direct taxes at some stage of life. One of the components of income subject to personal income tax among earnings and revenues is wages. A wage is defined as money, benefits in kind, and other advantages provided in return for labor.

When establishing tax systems, countries prioritize fairness and balance in tax distribution. However, wage income is not taxed at the same rate across all countries, and in certain cases, this may lead to inequality and an excessive tax burden.

1. Wage Income in Türkiye

In the Republic of Türkiye, wages constitute one of the elements of income subject to personal income tax. According to the Income Tax Law, wages are defined as monetary payments, benefits in kind (provision of goods as remuneration), and other advantages that can be expressed in monetary terms (such as housing or vehicle allocation), provided to employees who work under an employer and are attached to a specific workplace in return for services rendered.

For the purposes of implementing the Income Tax Law, the following payments are also considered wages:

- Pensions, disability, widow's and orphan's benefits paid by pension funds established by law and by the funds specified in Provisional Article 20 of Social Insurance Law No. 506, to the extent that they exceed the highest payment made to the highest-ranking civil servant.
- Monetary and in-kind payments and benefits provided in return for past or future services.
- Monetary and in-kind payments and benefits granted to members of the Grand National Assembly of Türkiye, Provincial General Assemblies, Municipal Councils, and members of permanent or temporary commissions established by special laws or administrative decisions, as well as to similar persons by virtue of their positions.
- Monetary and in-kind payments and benefits provided to chairpersons and members of Boards of Directors and Supervisory Boards, as well as to liquidators, by virtue of their positions.
- Payments and benefits provided to experts, official mediators, appraisers, sports referees, and members of competition juries.
- Transfer fees or similar payments and benefits made to athletes.
- Compensation and various payments made after the termination of an employment contract under mutual termination agreements or settlement agreements, including severance payments, job loss compensation, end-of-employment compensation, and employment security compensation.

1.1. Tax Rates

Tax rates are applied as indicated in the tariff schedule.

Income Tax Tariff for the 2025 calendar year (Article 103 of the Income Tax Law).

Up to **TRY 158,000**	15%
For income exceeding **TRY 158,000** up to **TRY 330,000**: TRY 23,700 for the first TRY 158,000, plus the applicable rate on the excess.	20%
For income exceeding **TRY 330,000** up to **TRY 800,000**: TRY 58,100 for the first TRY 330,000 (**For wage income:** TRY 58,100 for the first TRY 330,000 up to TRY 1,200,000), plus the applicable rate on the excess.	27%
For income exceeding **TRY 800,000** up to **TRY 4,300,000**: TRY 185,000 for the first TRY 800,000 (**For wage income:** TRY 293,000 for the first TRY 1,200,000), plus the applicable rate on the excess.	35%
For income exceeding **TRY 4,300,000**: TRY 1,410,000 for the first TRY 4,300,000 (**For wage income:** TRY 1,378,000 for the first TRY 4,300,000), plus the applicable rate on the excess.	%40

In 2006, a new system was introduced in Türkiye, and the number of tax brackets was reduced from five to four. The tax rates ranged from 15% to 35%.

1.2. Elements of Wage Income

In order for income to be taxed as wage income, it must possess certain characteristics:

1. **Subordination to an employer.**

One of the primary elements for income to qualify as wage income is subordination to an employer. An employer is a person who employs an employee (service provider) under their orders and instructions.

2. **Attachment to a workplace.**

Another essential element is being affiliated with a specific workplace, defined as the place where activities are carried out.

3. **Payment in return for services rendered.**

The final element is that payment must be made in consideration of services rendered. If no service is provided, the payment cannot be classified as a wage.

1.3. Gross and Net Wages

Wages are applied in two forms: gross and net wages.

Gross wage refers to the total income before any taxes or deductions are made. For example, if an employer pays TRY 7,000 annually, the gross salary amounts to TRY 7,000.

Calculation of Gross Wage

The calculation of gross wages depends on how the employee is compensated. For salaried employees, the gross wage is calculated by dividing the annual salary by the number of payment periods within a year.

Net wage refers to the amount paid after taxes and statutory deductions are made. When calculating the net wage, deductions such as income tax, stamp tax, employee social security contributions, and employee unemployment insurance contributions are subtracted from the gross wage.

1.4. Technical Characteristics of the Progressive Tariff

Progressive tax tariffs possess certain technical characteristics, such as bracket width differences, rate differences, and progression ratios.

The **bracket width difference** indicates the difference between the highest and lowest tax bases. The **rate difference** refers to the difference between the highest and lowest tax rates. For example, if the highest tax rate on wages is 40% and the lowest is 15%, the rate difference equals 25 percentage points.

Thus, since Türkiye applies a progressive and graduated system, it is appropriate to analyze the technical characteristics of progressive taxation within this framework.

2. Wage Income in Azerbaijan

This article briefly addresses the fundamental aspects of payroll calculation in Azerbaijan. A significant portion of the population in Azerbaijan earns their livelihood through wages.

Payroll is generally defined as the list of employees and the payments that the employer is required to make to them due to the employment relationship. Currently, payroll primarily refers to the payment of salaries to employees, as well as the withholding and remittance of income tax and mandatory social security contributions derived from wages and other employment-related income.

According to the Tax Code, the income tax rates applied to individual wages are determined as follows:

- In the oil and gas sector and the public sector, income up to AZN 2,500 per month is taxed at 14% of the taxable monthly amount; income exceeding AZN 2,500 is taxed at 25%.
- For individuals working outside the oil and gas sector and in the private sector, effective from 1 January 2019, monthly income up to AZN 8,000 is taxed at 0%, while the portion exceeding AZN 8,000 is taxed at 14%.

In addition to the 25% social insurance contribution, unemployment insurance contributions must also be paid at the rate of 0.5% by the employee and 0.5% by the employer from its own funds.

As of 1 January 2020, mandatory health insurance contributions are paid as follows: in the private oil and gas sector, 2% (1% employee and 1% employer) on salaries up to AZN 8,000, and 0.5% on the amount exceeding this threshold. In the public sector and the oil and gas sector, the rate is 2%.

Wage-related taxes and contributions in Azerbaijan can be summarized as follows:

- **Income tax:**
  - 0% (private non-oil and gas sector up to AZN 8,000)
  - 14% (private non-oil and gas sector exceeding AZN 8,000)
  - 14–25% (public service and oil and gas sector)
- **Mandatory social insurance contribution:** 25%

- **Mandatory unemployment insurance:** 1%
- **Mandatory health insurance:** 2% (1% employee, 1% employer for private sector income up to AZN 8,000; 0.5% for additional income), and 2% in the public or oil and gas sector.

Mandatory health insurance payments are made throughout the year in accordance with the established schedule.

Under Azerbaijan's wage taxation system, in addition to income tax (wage tax), a mandatory social insurance contribution of 25% is payable. For wages up to AZN 200, 3% of the social insurance contribution is deducted from the employee's salary and 22% is paid by the employer. If the monthly wage exceeds AZN 200, 10% is deducted from the employee and 15% is paid additionally by the employer.

Unlike income tax, foreign employees working under production-sharing agreements in the oil and gas sector are exempt from social insurance contributions. In other words, such foreign employees are subject only to income tax and are not required to make social contributions.

Update: As of 1 January 2025, the minimum wage in Azerbaijan is AZN 400.

"Gross" salary refers to the amount paid before tax deductions. "Net" salary refers to the amount paid to the employee after tax deductions. (Articles 102.1-1, 102.2, 102.3, 102.4, and 102.5 of the Tax Code.)

4. Comparison

4.1. Comparison in Terms of Taxation

In Türkiye, a progressive and graduated taxation system is applied. Tax rates increase from 15% up to 40%. At the same time, this structure may result in a relatively heavy tax burden for taxpayers.

In Azerbaijan, the system appears comparatively simpler, with income divided into two main sectors. As stated above, tax rates in the private sector range from 0% to 14%, while in the public and oil and gas sectors they range from 14% to 25%. Unlike Türkiye's multi-bracket progressive system, Azerbaijan applies a simpler form of progressive taxation.

4.2. Comparison of Wage Income Tax Rates

Country	**Country**	**Country**
Türkiye	15% – 40%	Progressive, graduated
Azerbaijan	Public and oil–gas sector: 14% and 25%; Private sector: 0% and 14%	Simplified (quasi-progressive)

4.3. Comparison in Terms of Exemptions

In Türkiye, a minimum wage exemption is applied, along with various additional exemptions and allowances.

In Azerbaijan, compared to Türkiye, a broader range of exemptions and tax privileges is implemented.

4.4. Comparison in Terms of Deductions from Gross Wages

In Türkiye, deductions such as unemployment insurance contributions and social security premiums are applied to gross wages.

In Azerbaijan, social insurance contributions are calculated based on income levels. Furthermore, the distribution of contributions varies between the employer and the employee. Employees working in the oil and gas sector are exempt from certain types of such deductions.

5. Conclusion

This study examined and compared the taxation of wage income in Türkiye and Azerbaijan. The findings reveal structural differences between the two countries' wage taxation systems.

In general, it has been determined that Türkiye applies a progressive and graduated taxation system with a relatively heavier tax burden. In contrast, Azerbaijan operates a comparatively simpler system with a lighter overall tax burden. Structurally, Türkiye demonstrates a "strong progressive rate" system, whereas Azerbaijan exhibits a "weak progressive rate" structure.

In Türkiye, simplifying the tax system, ensuring a more balanced distribution of tax rates, and expanding exemptions and allowances could help alleviate the tax burden and contribute positively to overall welfare. In Azerbaijan, although the system is relatively simple, ensuring tax equity may present challenges; therefore, regulatory improvements in this regard would be particularly important.

Below is the academic English translation of the **References** section. Original titles are translated into English, while preserving citation structure and academic formatting:

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